

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Township of Richmond	County Macomb
Audit Date June 30, 2004	Opinion Date December 16, 2004	Date Accountant Report Submitted To State: January 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 10 S. Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

Township of Richmond Macomb County, Michigan

**Financial Report
with Supplemental Information
June 30, 2004**

Township of Richmond

Contents

Report Letter	I
Management's Discussion and Analysis	2-5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	8
Statement of Revenue, Expenditures, and Changes in Fund Balances	9
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Fiduciary Fund - Agency Fund - Statement of Assets and Liabilities	11
Notes to Financial Statements	12-23
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	24-25



Plante & Moran, PLLC
Suite 200
10 S. Main St.
Mount Clemens, MI 48043
Tel: 586.465.2200
Fax: 586.469.0165
plantemoran.com

Independent Auditor's Report

To the Board of Trustees
Township of Richmond
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Richmond as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Richmond, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Richmond as of June 30, 2004 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 10, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

December 16, 2004

A member of



A worldwide association of independent accounting firms

Township of Richmond

Management's Discussion and Analysis

Our discussion and analysis of the Township of Richmond, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Total net assets related to the Township's governmental activities decreased by approximately \$14,000.
- State-shared revenue, the second largest revenue source in the governmental activities, was reduced by the State of Michigan by approximately \$26,000 this year.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant fund, the General Fund. The fiduciary fund statement provides financial information about activity for which the Township acts solely as an agent for the benefit of those outside of the government.

Township of Richmond

Management's Discussion and Analysis (Continued)

Township of Richmond as a Whole

The following table shows, in a condensed format, the net assets of the governmental activities as of June 30, 2004 (in thousands of dollars). Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

TABLE I

	Governmental Activities
Assets	
Current assets	\$ 536
Noncurrent assets	<u>1,670</u>
Total assets	2,206
Liabilities	
Current liabilities	65
Long-term liabilities	<u>328</u>
Total liabilities	<u>393</u>
Net Assets	
Invested in capital assets - Net of related debt	948
Restricted	109
Unrestricted	<u>756</u>
Total net assets	<u><u>\$ 1,813</u></u>

The Township combined net assets decreased 0.8 percent from a year ago - decreasing from approximately \$1,828,000 to \$1,813,000. Unrestricted net assets are the portion of net assets that can be used to finance day-to-day operations. At June 30, 2004, approximately \$756,000 of the Township's net assets is unrestricted.

Township of Richmond

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets of the governmental activities during the year ended June 30, 2004 (in thousands of dollars). Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

Revenue

Program revenue:	
Charges for services	\$ 239
Operating grants and contributions	13
General revenue:	
Property taxes	188
State-shared revenue	226
Unrestricted investment earnings	2
Transfers and other revenue	55
Total revenue	723

Program Expenses

General government	395
Public safety	153
Public works	150
Recreation and culture	19
Interest on long-term debt	20
Total program expenses	737

Change in Net Assets	\$ (14)
-----------------------------	----------------

Governmental Activities

The Township's total governmental revenues were approximately \$723,000. The three largest revenue items are charges for services, including permits and garbage collection fees, which total 33.1 percent of the revenue, state-shared revenue at 31.3 percent, and property taxes at 26.0 percent. This fiscal year, total revenue remained relatively consistent with the prior year since the decrease in state-shared revenues was offset by growth in property tax revenues. General government expenses account for over half of the total amounts expended. In total, there was a reduction in net assets totaling approximately \$14,000.

Township of Richmond

Management's Discussion and Analysis (Continued)

The General Fund

Our analysis of the Township's General Fund (the Township's only major fund) begins on page 8, following the government-wide financial statements. The fund financial statements provide detail information about the most significant fund, not the Township as a whole. The General Fund pays for the Township's governmental services. The most significant costs relate to general government services and public safety, which incurred approximately \$307,000 and \$147,000 of expenditures this year, respectively.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to increase the expenditure for professional fees by \$10,000. The Township's General Fund fund balance was increased to \$569,000 at June 30, 2004.

Capital Asset and Debt Administration

At the end of 2004, the Township had \$1,312,000 invested in a broad range of capital assets, including buildings, furniture, and office equipment.

Economic Factors and Next Year's Budgets and Rates

It is expected that the Township's property tax millages will remain the same next year. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Richmond

Statement of Net Assets June 30, 2004

	Primary Government Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 394,098
Receivables:	
Accounts	59,393
Intergovernmental	75,910
Prepaid costs	7,000
Restricted assets (Note 1)	97,931
Investment in joint venture (Note 9)	259,129
Capital assets (Note 5):	
Nondepreciable	489,000
Depreciable - Net	823,473
Total assets	2,205,934
Liabilities	
Accounts payable	25,085
Accrued and other liabilities	2,406
Deferred revenue (Note 4)	533
Noncurrent liabilities (Note 6):	
Due within one year	36,335
Due in more than one year	328,299
Total liabilities	392,658
Net Assets	
Invested in capital assets - Net of related debt	947,839
Restricted:	
Fire protection	97,931
Building code surplus	10,967
Unrestricted	756,539
Total net assets	<u><u>\$ 1,813,276</u></u>

Township of Richmond

Statement of Activities Year Ended June 30, 2004

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Functions/Programs				
Primary government - Governmental activities:				
General government	\$ 394,946	\$ -	\$ -	\$ (394,946)
Public safety	153,248	77,555	-	(75,693)
Public works	149,867	161,567	-	11,700
Recreation and culture	18,624	-	12,557	(6,067)
Interest on long-term debt	20,414	-	-	(20,414)
Total primary government	<u>\$ 737,099</u>	<u>\$ 239,122</u>	<u>\$ 12,557</u>	(485,420)
General revenues:				
Property taxes				188,202
State-shared revenues				226,484
Unrestricted investment earnings				1,793
Miscellaneous				<u>54,492</u>
Total general revenues				<u>470,971</u>
Change in Net Assets				(14,449)
Net Assets - Beginning of year				<u>1,827,725</u>
Net Assets - End of year				<u><u>\$ 1,813,276</u></u>

Township of Richmond

Governmental Funds Balance Sheet June 30, 2004

	Major Fund - General Fund	Nonmajor Governmental Fund - Liquor Law Enforcement Fund	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 393,400	\$ 698	\$ 394,098
Receivables:			
Accounts	59,393	-	59,393
Intergovernmental	75,910	-	75,910
Prepaid costs	7,000	-	7,000
Restricted assets (Note 1)	97,931	-	97,931
Total assets	<u>\$ 633,634</u>	<u>\$ 698</u>	<u>\$ 634,332</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 25,085	\$ -	\$ 25,085
Accrued liabilities	2,406	-	2,406
Deferred revenue (Note 4)	37,469	-	37,469
Total liabilities	64,960	-	64,960
Fund Balances			
Reserved for:			
Fire protection	97,931	-	97,931
Building code surplus	10,967	-	10,967
Prepaid costs	7,000	-	7,000
Unreserved, reported in:			
General Fund	452,776	-	452,776
Special Revenue Funds	-	698	698
Total fund balances	<u>568,674</u>	<u>698</u>	<u>569,372</u>
Total liabilities and fund balances	<u>\$ 633,634</u>	<u>\$ 698</u>	<u>\$ 634,332</u>
Fund Balance - Total Governmental Funds			\$ 569,372
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			1,312,473
The investments in joint venture are not reported in the funds			259,129
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(364,634)
Revenue related to receivables is reported in the statement of net assets at the time it are earned without regard to timeliness of remittance			36,936
Net Assets - Governmental Activities			<u>\$ 1,813,276</u>

Township of Richmond

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Fund - General Fund	Nonmajor Governmental Fund - Liquor Law Enforcement Fund	Total Governmental Funds
Revenue			
Property taxes	\$ 188,202	\$ -	\$ 188,202
Licenses and permits	76,887	-	76,887
Federal grants	12,557	-	12,557
State-shared - Grants and other revenues	233,287	-	233,287
Charges for services	161,567	-	161,567
Interest	1,793	-	1,793
Other	54,492	668	55,160
Total revenue	728,785	668	729,453
Expenditures			
Current:			
General government	306,850	-	306,850
Public safety	147,386	610	147,996
Public works	145,534	-	145,534
Recreation and culture	12,557	-	12,557
Debt service	57,156	-	57,156
Total expenditures	669,483	610	670,093
Excess of Revenue Over Expenditures	59,302	58	59,360
Fund Balances - Beginning of year	509,372	640	510,012
Fund Balances - End of year	<u>\$ 568,674</u>	<u>\$ 698</u>	<u>\$ 569,372</u>

Township of Richmond

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	59,360
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Depreciation expense		(64,461)
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection		(6,803)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		36,592
Loss on joint venture is not recorded in the funds		<u>(39,137)</u>
Change in Net Assets of Governmental Activities	\$	<u>(14,449)</u>

Township of Richmond

Fiduciary Fund - Agency Fund Statement of Assets and Liabilities June 30, 2004

Assets - Cash and investments (Note 3)	\$ 83,761
Liabilities - Cash bonds and deposits	\$ 83,761

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Richmond (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Richmond:

Reporting Entity

The Township of Richmond is governed by an elected five-member Board of Trustees. The accompanying financial statements present the Township of Richmond, Macomb County, Michigan. There are no component units required to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the agency fund financial statement. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Township reports the following major fund:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Township reports the following fund types:

Special Revenue Fund (Liquor Law Enforcement Fund) - The Special Revenue Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Fiduciary Fund - Agency Funds - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Township of Richmond

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are assessed as of December 31 and become a lien on December 1 of the following year. The related property taxes are billed on July 1 of the following year and are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The 2003 taxable valuation of the Township totaled \$113.4 million, on which taxes levied consisted of 0.8169 mills for operating purposes and 0.9000 mills for fire protection and EMS. This resulted in approximately \$92,000 and \$96,000 for operating and fire protection, respectively. These amounts are recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Restricted Assets - Restricted assets at June 30, 2004 consist of cash and cash equivalents restricted for fire protection services.

Capital Assets - Capital assets, which include property and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 years
Office furnishings	20 years
Equipment	5 to 10 years
Vehicles	15 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the Township supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America for the General Fund and Special Revenue Fund.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Township of Richmond

Notes to Financial Statements June 30, 2004

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations - During the year, the Township incurred expenditures that were in excess of the amounts budgeted in the General Fund, as follows:

	Amended Budget	Actual
Clerical salaries	\$ 45,500	\$ 49,261
Payroll taxes	12,000	13,058
Audit and accounting	7,130	10,677
Other professional services	14,000	29,326
Utilities	8,600	8,860
Street lights	3,800	3,809
Miscellaneous	6,000	8,434
Trustees	5,280	5,580
Equipment and building maintenance	12,000	16,084
Supervisor	18,500	20,056
Clerk	18,000	19,458
Treasurer	24,700	25,214
Landfill services	108,927	116,194
Recreation and cultural	8,200	12,557
Debt service	50,000	57,156

The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

Township of Richmond

Notes to Financial Statements June 30, 2004

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Construction Code Fees - The Township tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the Township is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under the provisions of the Act, the Township adopted this accounting treatment effective January 1, 2000. Activity for the year ended June 30, 2004 was as follows:

Cumulative shortfall - July 1, 2003	\$ (5,538)
2003-2004 building department activity:	
Current year revenue	\$ 71,143
Current year expenditures	<u>(54,638)</u>
Excess of revenue over expenditures	<u>16,505</u>
Cumulative surplus - June 30, 2004	<u>\$ 10,967</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated nine banks for the deposit of its funds. The deposits and investment policy adopted by the Board in accordance with Public Act 196 of 1997 is in accordance with statutory authority.

Township of Richmond

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 394,098	\$ 83,761	\$ 477,859
Restricted assets	97,931	-	97,931
Total	<u>\$ 492,029</u>	<u>\$ 83,761</u>	<u>\$ 575,790</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 306,378
Investments in securities, mutual funds, and similar vehicles	269,412
Total	<u>\$ 575,790</u>

Deposits

The bank balance of the Township's deposits is \$349,584, of which approximately \$110,000 is covered by federal depository insurance and approximately \$240,000 is uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Township's investments during the year consisted solely of bank investment pools and interlocal agreement investment pool (MBIA-CLASS). The investments under the interlocal agreement (MBIA-CLASS) are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Township of Richmond

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, bank investment pools and MBIA Michigan CLASS are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Township believes that the investments in these funds and contracts comply with the investment authority noted above.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
State-shared revenues	\$ 36,936	\$ -
Grant payments received prior to meeting all eligibility requirements	-	533
Total	<u>\$ 36,936</u>	<u>\$ 533</u>

Township of Richmond

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the Township's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 489,000	\$ -	\$ -	\$ 489,000
Capital assets being depreciated:				
Buildings and improvements	1,063,548	-	-	1,063,548
Office furnishings	51,276	-	-	51,276
Equipment	62,606	-	-	62,606
Vehicles	38,197	-	-	38,197
Subtotal	1,215,627	-	-	1,215,627
Accumulated depreciation:				
Buildings and improvements	276,724	52,343	-	329,067
Office furnishings	9,212	2,564	-	11,776
Equipment	37,164	7,008	-	44,172
Vehicles	4,593	2,546	-	7,139
Subtotal	327,693	64,461	-	392,154
Net capital assets being depreciated	887,934	(64,461)	-	823,473
Net capital assets	\$ 1,376,934	\$ (64,461)	\$ -	\$ 1,312,473

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 52,618
Public safety	5,252
Public works	524
Recreation and culture	6,067
Total governmental activities	<u>\$ 64,461</u>

Township of Richmond

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt

The Township of Richmond enters into installment purchase agreements for the construction of facilities and the acquisition of equipment. Installment purchase agreements are general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
Installment purchase agreements -						
Building construction:						
Amount of issue: \$500,000	3.73%	\$11,342 -				
Maturing through 10/5/2013		\$22,606	\$ 387,158	\$ (26,662)	\$ 360,496	\$ 32,197
EMS vehicle:						
Amount of issue: \$29,791	0.00%	\$828				
Maturing through 11/5/2004			14,068	(9,930)	4,138	4,138
Total governmental activities			\$ 401,226	\$ (36,592)	\$ 364,634	\$ 36,335

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 36,335	\$ 13,333	\$ 49,668
2006	33,426	12,104	45,530
2007	34,702	10,828	45,530
2008	36,001	9,528	45,529
2009	37,401	8,129	45,530
2010-2013	186,769	18,112	204,881
Total	\$ 364,634	\$ 72,034	\$ 436,668

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for all the above claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Township of Richmond

Notes to Financial Statements June 30, 2004

Note 8 - Contingent Liabilities

There are pending lawsuits against the Township at June 30, 2004. However, it is the opinion of management that the ultimate liability of these lawsuits, if any, would be immaterial to the financial statements.

Note 9 - Joint Venture

The Township is a member of the Richmond-Lenox E.M.S. Ambulance Authority (the "Authority"). The Authority is organized under the Ambulance Authority Act of the State of Michigan, with each township having a 50 percent interest. The Authority was established to provide the citizens of the two townships, as well as surrounding communities, with an emergency medical service through contractual agreements. The Township appoints one member to the joint venture's governing board, which then approves the annual budget.

The Township's equity interest in the joint venture at June 30, 2004, the latest available financial report, is \$259,129. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements can be obtained from the Township office at 34900 School Section Road, Richmond, MI 48062.

Note 10 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township of Richmond has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements).

The Township has elected to implement the general provisions of the statement in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$1,700,000 that would previously have been reported in the General Fixed Assets Account Group.

Note 10 - Accounting and Reporting Change (Continued)

- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$99,000 to reflect the historical cost of the Township's capital assets at that date.
- The governmental activities column includes long-term obligations totaling \$365,000 previously reported in the General Long-term Debt Account Group.

Required Supplemental Information

Township of Richmond

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<u>Revenue</u>				
Property taxes	\$ 189,220	\$ 189,220	\$ 188,202	\$ (1,018)
Licenses and permits	58,000	58,000	76,887	18,887
Federal sources	7,800	7,800	12,557	4,757
State sources	244,855	244,855	233,287	(11,568)
Interest	-	-	1,793	1,793
Garbage collection	109,200	109,200	161,567	52,367
Other	55,000	55,000	54,492	(508)
Total revenue	664,075	664,075	728,785	64,710
<u>Expenditures</u>				
General Government				
Administration:				
Clerical salaries	45,500	45,500	49,261	(3,761)
Payroll taxes	12,000	12,000	13,058	(1,058)
Postage and supplies	16,000	16,000	15,062	938
Attorney	15,000	25,000	24,679	321
Audit and accounting	7,130	7,130	10,677	(3,547)
Other professional services	14,000	14,000	29,326	(15,326)
Telephone	4,000	4,000	2,879	1,121
Printing and publishing	5,000	5,000	2,552	2,448
Insurance	12,000	14,000	13,907	93
Utilities	8,600	8,600	8,860	(260)
Street lights	3,800	3,800	3,809	(9)
Miscellaneous	6,000	6,000	8,434	(2,434)
Dues and conferences	4,000	4,000	2,021	1,979
Employee benefits	8,975	8,975	8,310	665
Total administration	162,005	174,005	192,835	(18,830)

Township of Richmond

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
General Government (Continued)				
Assessor	\$ 16,500	\$ 16,500	\$ 15,104	\$ 1,396
Trustees	5,280	5,280	5,580	(300)
Zoning enforcement officer	6,500	6,500	6,047	453
Equipment and building maintenance	12,000	12,000	16,084	(4,084)
Board of appeals	800	800	450	350
Planning commission	3,200	3,200	3,103	97
Board of review	1,600	1,600	1,200	400
Cemetery	600	600	450	150
Supervisor	18,500	18,500	20,056	(1,556)
Deputy supervisor	2,500	2,500	904	1,596
Clerk	18,000	18,000	19,458	(1,458)
Deputy clerk	1,600	1,600	365	1,235
Treasurer	24,700	24,700	25,214	(514)
Total general government	273,785	285,785	306,850	(21,065)
Public Safety				
Ambulance service	51,750	51,750	51,750	-
Inspector's salary	50,000	50,000	42,359	7,641
Fire contracts	53,280	53,280	53,277	3
Total public safety	155,030	155,030	147,386	7,644
Landfill Services	108,927	108,927	116,194	(7,267)
Highways and Streets	44,000	44,000	29,340	14,660
Recreation and Cultural	8,200	8,200	12,557	(4,357)
Capital Outlay	12,000	12,000	-	12,000
Debt Service - Note redemption and interest	50,000	50,000	57,156	(7,156)
Total expenditures	651,942	663,942	669,483	(5,541)
Excess of Revenue Over Expenditures	<u>\$ 12,133</u>	<u>\$ 133</u>	<u>\$ 59,302</u>	<u>\$ 59,169</u>



Plante & Moran, PLLC
Suite 200
10 S. Main St.
Mount Clemens, MI 48043
Tel: 586.465.2200
Fax: 586.469.0165
plantemoran.com

December 16, 2004

Board of Trustees
Township of Richmond
34900 School Section Road
Richmond, MI 48062

Dear Board Members:

We have recently completed our audit of the financial statements of the Township of Richmond for the year ended June 30, 2004. In addition to the audit report and letter to the Board, we offer the following comments and recommendations for your consideration:

Internal Control Matters

In planning and performing our audit of the financial statements of the Township of Richmond for the year ended June 30, 2004, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted instances involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

Bank account reconciliations are one the key elements of internal control since they are the primary means of maintaining control over cash management. Account reconciliations also help ensure that all receipts and disbursements are appropriate and accounted for correctly. During the year ended June 30, 2004, bank account reconciliations were not performed on a timely basis. In addition, as bank account

A member of



A worldwide association of independent accounting firms

reconciliations were prepared, they were not appropriately reviewed by someone independent of the cash management function. In order to establish adequate internal control over the cash management function, complete and accurate bank reconciliations should be prepared on a monthly basis with review of the reconciliation by a second individual.

We also noted a lack of segregation of duties exists since one individual performs virtually all of the accounting processing. In a small office setting, adequate segregation of duties is challenging. However, controls may be enhanced with the implementation of more formal review, or supervisory review, of general ledger transactions, such as journal entries or check registers, etc. In addition, such review should be evidenced by the reviewer with their initials. Such reviews will facilitate the identification and resolution of differences or unusual relationships in a timely manner.

State Shared Revenue

Municipalities in Michigan, including the Township of Richmond, have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for over 30% of the Township's total General Fund revenue for the year ended June 30, 2004. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last few State's fiscal years ending September 30 were less than originally projected.

It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

GASB Statement 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a very different look to the financial statements. Preparing for this new reporting model has been a long and arduous process. Although there are many differences with this new reporting model, the major additions are as follows:

- **Management's Discussion and Analysis (MD&A):** The MD&A provides a high-level overview of the Township's financial position and results of operations, with a focus on the government-wide financial statements.
- **Government-wide Financial Statements:** These additional statements adjust the traditional fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the Township from a longer term perspective (e.g., are today's taxpayers paying for today's services?). These statements report all capital assets, as well as long term debt as part of the Township's financial picture.
- **Focus on Major Funds:** The fund based financial statements now focus on the Township's most significant fund (major fund), which is the General Fund.

- Budget Comparison: A financial statement reader will now be able to view not only the actual revenue and expenditures of the Township as compared to the final amended budget, but also as compared to the originally adopted budget.

The GASB believes this new model will provide a more complete picture of the financial position of governmental units. It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to Government-wide reporting, infrastructure tracking and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the Township's administration and the auditors.

Other accounting matters

Employee Vacation Days – It is our understanding that a small group of employees are allowed to earn vacation time. It appears that formal procedures do not exist to record, track and relieve days earned by those employees eligible for vacation time. We encourage the Township to establish procedures to track earned time, which will facilitate determining the liability for unused, vested time at year-end on the new government-wide statements.

We would like to thank the Board for the continued opportunity to serve as auditors for the Township. If you have any questions regarding these or any other matters, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Christina M. Kostiuk